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taxpayer than he gains as a public security holder or vice versa. The balance of gains and losses will, of course, vary with different persons and will not be the same in perhaps any case under the debt-payment and debt-repudiation plans, but in many cases the difference will not be great, and in every case there will be gains and losses to be balanced under either plan.

Of course, a combination of the two plans is possible, amounting in substance to partial repudiation or a scaling of the debts. It is this which Professor Cassel suggests when he recommends that "every attempt at the restoration of the old value of money" should be abandoned. The old value of money and the old price level are not identical, though his method of reasoning forces him to maintain that they are. The old value of money in the gold-standard countries is the value of the amount of gold constituting the unit of the value, whatever that may be, and, if that value is less now than it was formerly, as it doubtless is, the restoration of the value of money would not restore the old level of prices, but it would restore the convertibility into gold of all forms of the currency of each country.

The solution of the above mentioned problems will restore the exchanges to their pre-war state and will relieve the banks of the world of the greater part of the strain under which they are at present operating. The chief cause of their present overexpanded condition is the support they have been obliged to give their respective governments in the financing of the war. As soon as the finances of these governments have been placed upon a sound basis, the banks will be relieved of that obligation. Another cause of expansion is speculation which is everywhere rampant at the present time, especially in this country. For the support of this the banks are themselves responsible and the remedy for whatever amount of over-expansion is due to this cause they have in their hands, and they should apply it vigorously and without further delay in the form of increased discount rates and greater discrimination in the granting of credits. To expect the banks to accomplish more than this amount of deflation, to use a widely current term, is to expect the impossible, and to rely upon bank deflation as the chief element in the solution of present price and monetary problems is, in my judgment, to court disappointment and to delay a real solution.

OBSERVATIONS ON ARTICLE OF PROFESSOR GUSTAV CASSEL

By WALTER LICHTENSTEIN

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In general, I find myself in complete agreement with Professor Cassel, and it is interesting to note that he emphasizes certain aspects of the question of high prices with which the public is

altogether too unfamiliar. The statement that "it is important to root out the popular fallacy that a general rise of prices can be prevented by legislation enacting maximum prices and

inflicting punishments on speculators, while the government is incessantly flooding the country with fresh money and the bank rate is kept too low," cannot be repeated too often. The popular fallacy, to which Professor Cassel refers in the paragraph quoted, is leading to agitation in this country, which, if sufficiently long continued, will have disastrous effects upon business enterprises. If our large employers of labor are to be compelled to pay high wages, and at the same time are afraid to charge sufficiently for their products for fear that they may go to jail if they do so, it is obvious that we shall soon face a complete stagnation in business. As stated in several recent papers, it is not at all desirable for this country that there should be a very sharp reduction in the present price levels, and it would be well if we all realized that any reduction in price levels ought to be rather gradual. To be sure, Professor Cassel is probably not correct in believing that the present price levels should be maintained for all time. As Professor Wesley C. Mitchell of New York showed at a recent meeting of the American Economic Association, the experience of the past teaches us to believe that in course of time the level of prices will become again more nearly what we regarded as normal before the war.

Professor Cassel's explanation of ratios of exchange between various countries is interesting and illuminating. He makes it perfectly clear that the panacea put forth recently by various gentlemen for doing away with present exchange difficulties by creating a kind of international currency, would not solve our difficulties at all,

since, according to his view, the exchange ratios do not depend by any means entirely upon the question of the relation of monetary units to gold, but to a large extent upon the purchasing power of the currency of any country within that country itself. It is therefore evident that if every country had the same currency it would not mean that this currency would necessarily be of identical value in every country, and international bills of exchange would not by any means be payable at par the world over.

In his discussion at the meeting of the American Economic Association, Mr. James B. Forgan agreed with, and in a sense anticipated the remarks of Professor Cassel regarding the desirability of raising discount rates. Professor Cassel is entirely correct in stating that this was too long delayed from a theoretical point of view, but, on the other hand, there were many practical considerations why the governments did not dare to do what undoubtedly their financial advisors thought desirable.

Professor Cassel has not touched upon one remedy which might aid the situation very much, and which has been discussed at considerable length in the book of Mr. J. M. Keynes, *The Economic Consequences of the Peace*, recently published. According to Mr. Keynes, and he undertakes to prove his points by means of a wealth of statistical material, the trouble with the whole world at present is that it is laboring under a mass of governmental debts which can never be paid, but which will be a source of continuous irritation and uncertainty. Probably the whole world, including the United States, would be better off if some

international conference would be called, consisting of leading financiers and economists to consider carefully the question of the situation in each and every country, and on this basis readjust the financial obligations of the various countries, one to another. This would bring about a sanitation of economic relationships which would lift a burden from the shoulders of everyone engaged in productive activity. The world at present is much like a bankrupt concern which, nevertheless, is continuing to stagger on without trying to reach some adjustment with its creditors. In addition to an international economic conference, the question might well be raised in many of the countries whether it would not be better for everyone concerned if the internal debt were

cancelled. If we take a country like Germany, for example, its internal debt and its international obligations are such that in one form or another everyone having means at all will face what amounts to a recurrent confiscation of property. Would it not be better if the state were to frankly repudiate all its internal debts and permit everyone start afresh? After all, such a repudiation would strike those very same people who will suffer from a system of taxation which is to be regarded as being equivalent to gradual confiscation. An old proverb says, "An end with frightfulness is to be preferred to frightfulness without end." It seems to me that this proverb might readily be applied to the present financial state of the world.

A DISCUSSION OF PROFESSOR CASSEL'S ARTICLE

By A. BARTON HEPBURN

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I have read Professor Gustav Cassel's paper with very great interest and general approval. I take exception to some things, however. *What has Happened to the World's Monetary Standards* is well stated.

Like all devotees of the quantity theory of money, however, Professor Cassel gets the cart before the horse. Under the heading "Popular Ideas," in arguing that the quantity of money fixes the price level and in combating popular ideas which are erroneous in his opinion, he says, "This is the case, *e.g.*, when people speak of high wages, high cost of raw material, etc., as the causes of the general increase in prices." The cost and hence the

prices of finished goods are represented mainly by the cost of labor and the cost of raw material. When the cost of these items is increased, the cost of the finished product is necessarily increased, and high or higher prices inevitably result. This is so manifestly true that it seems strange that anyone can argue that the quantity of money is alone responsible for increased prices. People do not actually borrow money in advance with which to go shopping, even when they arrange credit in advance. The issue of the credit instrument in payment invariably follows the transactions. People buy products and then they seek some sort of credit